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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000499

SIPDIS

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SUBJECT: BULGARIA GREETES EU REPORT WITH STIFF UPPER LIP

REF: SOFIA 0485

Classified By: CDA Alex Karagiannis for reasons 1.5 (b) and (d).

¶1. (C) Summary: Bulgarian leaders tried to put the best face on the harshly-worded EU monitoring reports (on rule of law and management of EU funds) released July 23, although they were disappointed their lobbying efforts did not result in a significantly softened EU assessment. As expected, Bulgaria did not fulfill the requirements of any of the six EU rule of law benchmarks spelled out in earlier monitoring reports. The Commission stripped two Bulgarian EU fund implementation agencies of their accreditation and suspended hundreds of millions of dollars in pre-accession funding. Prime Minister Stanishev assured that Bulgaria had the political will to address EU concerns and called a coalition council meeting to review ministry action plans. Limited cabinet changes may result. The opposition used the report to file its sixth no confidence motion against this government, a doomed effort that is the opening salvo in what will likely be a politically-turbulent fall. End Summary.

EC ON BULGARIA: NUANCE DOESN'T WORK

¶2. (C) Despite leaks and intense lobbying by Bulgarian officials in Brussels in the week before the EU Monitoring Reports' release, the EU issued an assessment of Bulgaria July 23 that was unprecedented in its harshness. Our EU contacts told us those in charge of monitoring Bulgaria on rule of law issues had come to the conclusion that "nuance was not working" and the only way to bring change in Bulgaria was to take a blatantly critical tone and hit Bulgaria in the pocketbook. While the three reports -- a political analysis, technical report, and EU funds analysis -- were softened slightly in the final days, they highlighted the government's failure to successfully meet targets in any of six rule of law benchmark areas. The Commission stripped two Bulgarian EU funds implementing agencies of their accreditation and suspended 765 million dollars in pre-accession aid to Bulgaria. The Commission kept open the possibility that Bulgaria could tap into these funds in the future, but only if progress is achieved quickly.

A MEASURED REACTION

¶3. (C) Prime Minister Stanishev set the tone for Bulgaria's measured response to the reports. He emphasized the reports' positive comments on the creation of the State Agency for National Security (DANS), reform of the Ministry of Interior, and the closing of the duty free shops. He tasked each ministry to put together an action plan to address the Reports' findings and called a meeting of the coalition council July 26-27 to discuss them. He stressed that Bulgaria has the political will to address all Commission

concerns and noted that no further "underestimation" of the European Commission's concerns by his government will be tolerated. President Parvanov reiterated this message, saying the Commission assessments "should encourage us to take fast action." MP's publicly took a positive, well-modulated stance. In a previously scheduled July 23 meeting with the Charge, the Parliamentary chairs and deputy chairs of the foreign affairs, defense, security and energy committees all adopted the line that Bulgaria must and will adopt concrete actions plans. In this meeting at least, opposition deputies took only very minor swipes at the governing coalition. In a sidebar private conversation, Mincho Spassov, a senior MP from coalition member NMS added that the EU reports show clearly that "Bulgaria is a ship which has veered off course." In the past, he said, Bulgaria's gut reaction would be to "shoot the captain." This time, he said, Bulgaria is united around redirecting the ship. The only immediate disappointing public reaction came from the Supreme Judicial Council Chair, who harshly criticized a separate report from the European Anti-Fraud Office (OLAF), saying it lacked precision and unfairly accused certain individuals of wrongdoing before indictments had been filed.

THE FALL-OUT

14. (C) As expected, the relatively weak opposition used the report as a basis to file a no confidence motion in Parliament -- the sixth against this government since it took office in August 2005. Debate on the motion will be held July 29, with a vote scheduled for July 31. It is unlikely

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to succeed, but represents a warning shot for the budget and election season that will begin in earnest in September. Meanwhile, the coalition may decide on cabinet changes during its July 26-27 coalition council meeting. The most likely to go is still Minister of Regional Development Asen Gagauzov, whose ministry has chronically mishandled EU funds. Our contacts tell us that coalition junior members NMS and MRF may push for additional cabinet changes, including Minister of Transport Petar Mutafov and Minister of Finance Plamen Oresharski, both of whom manage ministries that are implicated in the mismanagement of EU funds. These changes are much less likely, and, in the case of the extremely well-connected Oresharski, next to impossible.

COMMENT

15. (C) With the extensive leaks in the week before the EU Reports' release, some of the Commission's findings had already been discounted by the government, media and public. Nevertheless, the harsh tone of the report provided a needed jolt to the government and public. Not coincidentally, the report called the government on issues that are highest on our rule of law agenda with Bulgaria -- we have been working behind the scenes with the authors of report since March 2008. The government's measured response to the report was to its credit. It is saying all the right things, but now it must translate words into action (not just plans) and produce genuine results. Our efforts to advise on MOI reform will help.

16. (C) With Parliament out of session in August and government ministries usually in second gear (at best) during this period, we don't expect to see immediately-visible progress unless the coalition council meeting galvanizes unprecedented summer action. September promises a flurry of ministerial motion, if not actual movement, on the reform agenda. At the same time, the no confidence motion is clearly the opening salvo in what will likely be a politically-turbulent fall. While the July 31 no confidence vote is unlikely to pass, our well-placed contacts are now openly speculating that this government may not last until

June 2009 elections. The EU report has given new impetus to consolidate the opposition, and opposition leaders are already discussing a boycott of the Parliament in the fall. Even if this effort fails, the budget season, which begins in September and may be marked by a new round of strikes similar to those witnessed in 2007, will further batter the ruling coalition. In the midst of this turbulence, we will keep the government focused on: continued engagement in Iraq and Afghanistan, MOI reform, and anti-money laundering efforts, key among our priorities here.

Karagiannis